

Federal Reserve Transparency Could Stimulate the Economy and Help Expand Minority and Women-owned Business Opportunities

Testimony before the House Financial Services Committee on Reg B

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Testimony:

Fifteen years ago Greenlining Institute met with Federal Reserve Chairman Alan Greenspan to urge revisions of Reg B in order to track small business loans to minorities and women. On behalf of the U.S. Hispanic Chamber of Commerce, the California Black Chamber of Commerce, the Council of Asian American Business Associations of California, and the dozen other minority business associations that are part of the Greenlining Institute, we applaud this committee for these hearings.¹

Greenlining does not believe that most of the major banks deliberately discriminate anymore regarding loans to minority and women-owned businesses. However, the present lack of transparency and the present blanket prohibition on financial institutions gathering and publishing data on their lending practices to the five million minority-owned businesses and eight million women-owned businesses specifically interferes with the free market right of banks to seek greater market opportunities among the two fastest growing segments of our national small business community. It is also possible that the present prohibition has caused inadvertent discrimination by some banks. But this will not be fully known until banks can compare their data with each other and federal banking regulators, Congress and minority business groups can review such data.

We strongly believe that given no other variables, except perhaps, where national security is involved, that transparency is essential. It is particularly essential in the area of small business lending since the vast majority of new jobs and expansion of businesses within the United States, including employment opportunities, are being created by our nation's small businesses.²

During Greenlining's more than one dozen meetings over the last fifteen years with Federal Reserve Chairmen Alan Greenspan and Ben Bernanke, we have raised the issue that HMDA transparency data has doubled, if not tripled, the number of home loans originated for minorities, and that SBA legislation requires comparable ethnic data for SBA guaranteed small business loans.

Both Federal Reserve Chairmen have strongly supported regulatory actions based upon comprehensive information. The gathering of small business data by race, ethnicity and gender is fully consistent with this desire and practice.

¹ The Greenlining Institute is a national public policy and advocacy center that was originally formed to oppose redlining. Today its main goal is to encourage greenlining by promoting more lending, investments, philanthropy and other business opportunities in the inner-cities and in the areas of America that are under-served by our nation's regulated financial institutions. Robert Gnaizda is the General Counsel and a founder of Greenlining Institute. Greenlining today works closely with many major banks on many minority oriented programs. These financial institutions include BofA, Wells Fargo, Citigroup, JP Morgan Chase, WaMu, Wachovia, Merrill Lynch, U.S. Bancorp, Comerica Bank, Union Bank and Bank of the West. Greenlining also meets at least annually in D.C. with the Chairman of the Federal Reserve, the Chair of the FDIC, the Comptroller of the Currency and the Director of OTS. Its next *confirmed* meetings with these regulators are in D.C. on November 17th and 18th.

² Almost half (45%) of all businesses today are women and/or minority-owned.

Recommendations

Greenlining and the minority business organizations it represents, therefore, strongly support the following legislative actions:

- Mandatory reporting by 2011 for all institutions with one billion dollars or more in assets or making 500 or more small business loans a year.
- Voluntary reporting by all financial institutions as of the time legislation takes effect and applicable to *all* financial institutions.

In order to minimize the cost (and Greenlining disputes financial institutions' estimates of cost) and to reduce the complexity of the reporting, we urge that a Joint Task Force be formed by this September. It should include the Federal Reserve, OCC, FDIC, OTS, the top ten small business lenders by volume and the leadership from the African American, Latino and Asian American business and community groups.

This task force should develop by January of 2009 a common metric that will provide crucial information in a fashion that minimizes costs and complexity and maximizes the value of the information gathered. This could enable all financial institutions, assuming legislation is passed in 2009, to immediately begin to gather on a voluntary basis (and using a common metric) information that will allow them to immediately stimulate the economy by effectively marketing to our nations 13 million women and minority-owned businesses.

Presumably, this voluntary gathering of data will also be helpful for the Federal Reserve and other regulators in modifying the common metrics for reporting prior to mandatory reporting going into effect in 2011.

Absence of Data

Due to the restrictions on the gathering of data by race, ethnicity and gender for small business loans, there is no reliable data. However, Greenlining wishes to offer a parallel world where data is gathered that may be useful. Nationally, just one percent of contracts by Fortune 500 corporations are awarded to African American, Latino or Asian American businesses. Corporations that have wished to take advantage of minority and women-owned business opportunities, however, have far exceeded these numbers since they are not barred by regulation from gathering such data or marketing to such entities. For example, BofA, Wells Fargo and Union Bank award more than 15% of their contracts to minority and women-owned businesses, or five times the national average. It is likely that some financial institutions will achieve comparable exemplary results once freed of the "tyranny" of Reg B.

Today, Greenlining is aware of just one major financial institution that has, in effect, sidestepped the Federal Reserve's philosophy that "ignorance is bliss."

At the urging of minority business organizations represented by Greenlining, Wells Fargo's CEO established multi-billion dollar small business lending goals for women, African American, Latino and Asian American-owned businesses. For three of these four

market segments, Wells Fargo has exceeded its multi-billion dollar goals. And in the case of Asian Americans, Wells Fargo is well on the way to exceeding its goal.

In the past, financial institutions have resisted CRA and resisted data collection for home lending and SBA lending. It is Greenlining's expectation that corporations hungry for additional data that will allow them to expand their domestic markets, will overwhelmingly support these suggestions. Should they do so in a cooperative partnership mode with regulators and small business groups, they can avoid or minimize what they allege to be the unnecessary costs and inefficiencies in data gathering.

In conclusion, we thank you Mr. Chairman and members of this committee for securing the GAO study. We pledge our full cooperation with all of the regulators and major financial institutions in helping stimulate our domestic economy through responsible and transparent lending for women and minority-owned businesses.